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TESTIMONY OF JACQUELINE R. CHERRY

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 96-005-E

IN RE: DUKE POWER COMPANY

Q. WOULD YOU PLEASE STATE FOR THE RECORD, YOUR NAME,  
ADDRESS AND OCCUPATION?

A. My name is Jacqueline R. Cherry. My business  
address is 111 Doctors Circle, Columbia, South  
Carolina. I am employed by the Public Service  
Commission of South Carolina, Accounting  
Department, as an utilities accountant.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND  
AND YOUR BUSINESS EXPERIENCE?

A. I received a B.S. Degree in Business  
Administration with a major in Accounting from  
Johnson C. Smith University in 1976. I was  
employed by this Commission in February 1979, and  
have participated in cases involving gas,  
electric, telephone, water and wastewater  
utilities.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
PROCEEDING?

1 A. The purpose of my testimony is to summarize the  
2 results of the Accounting Staff's examination of  
3 Duke Power Company's Fuel Adjustment Clause  
4 operation for the period December 1995 through  
5 May 1996. The findings of the examination are  
6 contained in the Accounting Department's section  
7 of the Commission Staff Report, prepared for this  
8 proceeding.

9 Q. WHAT WAS THE SCOPE OF THE EXAMINATION?

10 A. The Accounting Staff traced the fuel information;  
11 as filed in the Company's required monthly filing,  
12 to the Company's books and records. The  
13 examination covered the period October 1995  
14 through March 1996. The purpose of the  
15 examination was to determine if Duke Power Company  
16 had computed and applied the monthly Fuel  
17 Adjustment Clause in accordance with the approved  
18 clause. To accomplish this, Staff examined the  
19 components surrounding the operation of the  
20 clause.

21 Q. WHAT WERE THE STEPS THAT THE STAFF EMPLOYED WITHIN  
22 THE SCOPE OF THE EXAMINATION?

23 A. The examination consisted of the following:  
24 1. An Analysis of Account # 151 - Fuel Stock  
25

1           2. Verification of Charges to Nuclear Fuel Expense

2               -- Account # 518

3           3. An Analysis of Purchased Power and Interchange

4           4. Verification of KWH Sales

5           5. A Comparison of Coal Costs

6           6. An Analysis of Spot Coal Purchasing Procedures

7           7. Review of Duke Power Company's Coal Contract

8               Buy-Out

9           8. Recomputation of Fuel Cost Adjustment Factor

10               and Verification of Deferred Fuel Costs

11           9. Recomputation of True-up for

12               (Over)Under-Recovered Fuel Costs

13       **Q. MRS. CHERRY, WOULD YOU PLEASE EXPLAIN THE REVIEW**  
14       **OF DUKE POWER COMPANY'S COAL CONTRACT BUY-OUT?**

15       **A.** On August 9, 1995, Duke Power Company requested a  
16       Commission accounting order which would give Duke  
17       Power Company authorization to defer costs the  
18       Company anticipated incurring in association with  
19       one of its existing coal contracts and to amortize  
20       such costs to the cost of fuel burned. The costs,  
21       which total \$23,024,789.75, are coal contract  
22       buy-out costs which Duke Power Company and one of  
23       its contract coal suppliers, Westmoreland Coal  
24       Sales Company, negotiated to buy out Duke Power  
25       Company's obligation to purchase coal during the

1 remaining period of the existing contract--August  
2 1995 through July 1996. Duke Power Company felt  
3 that they could purchase replacement coal at  
4 prices considerably lower than the prices  
5 pertaining to the existing Westmoreland contract.  
6 Duke Power Company stated, in its request letter  
7 to the Commission, that Duke Power was confident  
8 the cost of replacement coal plus the proposed  
9 deferral (which is the cost of the contract  
10 buy-out) when compared to the cost which would  
11 have been incurred under the existing contract  
12 would provide a substantial net benefit to  
13 customers. The Company, therefore, requested  
14 authorization to defer the buy-out payment in  
15 Account No. 186 - Miscellaneous Deferred Debits,  
16 and to amortize the buy-out cost to Account No.  
17 501 - Fossil Fuel for at least a twelve-month  
18 period beginning in September 1995. A  
19 twelve-month time period was chosen, as stated in  
20 the Company's request letter, to cover the same  
21 time period (twelve months remained on the  
22 existing contract) that savings on replacement  
23 coal purchases would likely be realized. Also,  
24 September 1995 began the amortization period  
25 because the Company noted that any purchases of

1 replacement coal in August 1995 would not likely  
2 impact the cost of fuel burned until September  
3 1995.

4 On August 22, 1995, the Commission approved Duke  
5 Power Company's request, for accounting purposes  
6 only, to reflect the buy-out costs in the  
7 aforementioned accounts with a twelve-month  
8 amortization period. The Commission noted that  
9 amortization will only be allowed to the extent  
10 that savings on replacement coal purchases are  
11 realized. The Commission also noted that the  
12 Commission reserves the right to review the  
13 economics of the Company's transaction in the  
14 Company's fuel clause adjustment proceedings.  
15 During this audit review period of the Company's  
16 fuel adjustment clause, October 1995 through March  
17 1996, Staff reviewed the savings associated with  
18 the replacement coal purchases plus the  
19 amortization of the contract buy-out versus the  
20 Company's original coal contract costs. The  
21 replacement coal purchases consisted of spot  
22 market coal and coal purchased from another coal  
23 contract supplier. Staff reviewed the costs of  
24 the replacement coal purchases, compared those  
25 costs to the original contract costs and then

1 reduced the net result of the aforementioned costs  
2 by the monthly amortization of the contract  
3 buy-out, which is \$1,918,732 per month. The  
4 cumulative net savings as of March 31, 1996 totals  
5 \$15.9 million.

6 **Q. WITH REGARD TO THE TRUE-UP OF**  
7 **(OVER)UNDER-RECOVERED FUEL COSTS, WOULD YOU PLEASE**  
8 **ELABORATE ON STAFF'S COMPUTATION?**

9 **A.** Staff analyzed the cumulative under-recovery of  
10 fuel costs that the Company had incurred for the  
11 period October 1995 through March 1996 of  
12 \$174,874. Staff added the projected  
13 under-recovery for April 1996 of \$534,875 and the  
14 projected under-recovery for May 1996 of \$451,578  
15 to arrive at an cumulative under-recovery of  
16 \$1,161,327. The Company's cumulative  
17 under-recovery, per its testimony in Docket No.  
18 96-005-E, as of March 1996 totals \$213,000 and as  
19 of May 1996 the cumulative under-recovery totals  
20 \$1,200,000. The difference between the Company's  
21 and the Staff's cumulative under-recovery balances  
22 as of actual March 1996 is \$38,126, and the  
23 difference as of estimated May 1996 is \$38,673.  
24 The cumulative difference as of March 1996 of  
25 \$38,126 is mainly (there is a \$1,183 cumulative

1 rounding difference as of September 1995) based on  
2 Staff's corrections (calculation adjustments) to  
3 the Company's Purchased Power Costs for December  
4 1995 through March 1996 (per Staff's report). The  
5 Company will adjust its books by the next fuel  
6 review period. The differences between the March  
7 1996 and May 1996 respective cumulative  
8 differences of \$38,126 and \$38,673 are based on  
9 rounding differences between the Company's and the  
10 Staff's monthly under-recovery amounts for April  
11 and May 1996. As stated in Duke Power Company's  
12 Adjustment for Fuel Costs, fuel costs will be  
13 included in base rates to the extent determined  
14 reasonable by the Commission for the succeeding  
15 six (6) months or shorter period. Accordingly, the  
16 Commission should consider the under-recovery of  
17 \$1,161,327 along with the anticipated fuel costs  
18 for the period June 1, 1996 to November 30, 1996  
19 for the purpose of determining the base costs for  
20 fuel in base rates effective June 1, 1996. This  
21 under-recovery figure of \$1,161,327 was furnished  
22 to the Commission's Utilities Department.

23 **Q. MRS. CHERRY, WOULD YOU PLEASE DESCRIBE THE**  
24 **REMAINING STAFF EXHIBITS?**

25 **A. Staff prepared exhibits from Duke Power Company's**

1 books and records reflecting fuel costs during the  
2 review period.

3 Specifically, these exhibits are as follows:

4 Exhibit A - Coal Cost Statistics

5 Exhibit B - Received Coal-Cost Per Ton Comparison

6 Exhibit C - Detail of Nuclear Cost

7 Exhibit D - Total Burned Cost (Fossil and Nuclear)

8 Exhibit E - Cost of Fuel

9 Exhibit F - Factor Computation

10 Exhibit G - S.C. Retail Comparison of Fuel

11 Revenues and Expenses

12 **Q. MRS. CHERRY, WHAT WERE THE RESULTS OF THE**  
13 **ACCOUNTING DEPARTMENT'S EXAMINATION?**

14 **A.** Based on the Accounting Staff's examination of  
15 Duke Power Company's books and records, and the  
16 utilization of the fuel cost-recovery mechanism as  
17 directed by the Commission, the Accounting  
18 Department is of the opinion that the Company has  
19 complied with the directives (per the Fuel  
20 Adjustment Clause) of the Commission.

21 **Q. MRS. CHERRY, DOES THIS CONCLUDE YOUR TESTIMONY?**

22 **A.** Yes, it does.  
23  
24  
25